

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01
/085 W

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P R 241345Z MAY 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 1792
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O. 11652: N/A
TAGS: EFIN BR
SUBJECT: FINANCE MINISTER SIMONSEN RECEIVES ADDITIONAL POWERS IN
FIGHT AGAINST INFLATION

1. THE ECONOMIC DEVELOPMENT COUNCIL, (CDE) THE
ECONOMIC POLICY-MAKING BODY CHAIRED BY PRESIDENT GEISEL
IN A MEETING ON MAY 18, GRANTED THE FINANCE MINISTER FULL
AND COMPLETE POWERS OVER PRICE INCREASES OF GOODS AND
SERVICES OF ALL STATE ENTITIES, INCLUDING THE SETTING
OF MINIMUM PRICES FOR MANY AGRICULTURAL PRODUCTS. A
PRESIDENTIAL DECREE FORMALIZING THIS NEW ARRANGEMENT WAS
PUBLISHED ON THE SAME DAY.

COMMENT:

2. THIS LATEST DECISION WAS A COMPROMISE SOLUTION TO
THE DILEMMA OF TRYING TO CONTROL INFLATION WHILE
PREVENTING UNEMPLOYMENT DURING THE PAST FEW MONTHS AS LAY-OFFS
IN THE AUTO INDUSTRY INCREASED AND WITH INFLATION
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SHOWING NO SIGNS OF LOSING DOWN. IN THE LAST
FEW MEETINGS OF THE CDE, MEASURES WERE TAKEN TO
STIMULATE THE CONSTRUCTION INDUSTRY, WHERE THE
LEVEL OF UNEMPLOYMENT HAS BECOME A SERIOUS CONCERN
TO THE GOVERNMENT. THESE MEASURES WERE BEING INTER-
PRETED BY MANY OBSERVERS AS A WEAKENING OF THE
GOVERNMENT'S RESOLVE TO FIGHT INFLATION IN THE FACE

OF RISING EUEMPLOYMENT. BY TIGHTENING UP AND EXPANDING THE SYSTEM OF PRICE CONTROLS (MANY PRICES ARE ALREADY CONTROLLED), THE AUTHORITIES HOPE TO BRING INFLATION UNDER CONTROL WITHOUT INCREASING THE DOSE OF AUSTERITY. SURELY THE BRAZILIAN AUTHORITIES KNOW THAT PRICE CONTROLS ARE NOT A LONG TERM SOLUTION AND THAT THE ONLY WAY TO GET HOLD OF INFLATION IS TO WIPE OUT ITS CAUSES. AWARE OF THIS NECESSITY, SIMONSEN HAS PUBLICLY STATED THAT HE DOES NOT PLAN TO FREEZE PRICES BUT ONLY TO "STABILIZE" THEM. IN ADDITION, HE HAS INDICATED THAT HE INTENDS TO PURSUE THE SAME TIGHT MONETARY POLICIES HE HAS BEEN FOLLOWING FOR THE LAST YEAR.

3. THIS LATEST CDE ACTION WAS A PERSONAL VICTORY FOR SIMONSEN. THE PRINCIPAL LOSERS WERE THE MINISTERS OF MINES AND ENERGY AND AGRICULTURE. THE FORMER LOST HIS POWERS TO SET GASOLINE PRICES AND THE LATTER HIS CONTROL OVER AGRICULTURE PRICES, TWO IMPORTANT ITEMS IN THE CONSUMER PRICE INDEX. THIS BY NO MEANS MAKES SIMONSEN AN ECONOMIC CZAR. TO MAKE THIS CLEAR, THE PRESIDENT HAS GIVEN THE PLANNING MINISTER THE POWER TO REVIEW REQUESTS FOR PRICE-INCREASES OF PUBLIC SERVICES, EVEN THOUGH SIMONSEN RETAINS THE FINAL WORD. CONSCIOUS OF HIS DELICATE POSITION, AND IN ORDER TO AVOID MISUNDERSTANDING, SIMONSEN REPORTEDLY CONCEALED LIMITED OFFICIAL USE

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AT THE LAST MINUTE A TELEVISION INTERVIEW ON THE CDE DECISION.

4. IT HAS BEEN KNOWN FOR SOME TIME THAT SIMONSEN WAS VERY UNHAPPY WITH THE RATE OF INFLATION THIS YEAR (16 PERCENT DURING THE FIRST FOUR MONTHS) AND REPORTEDLY THREATENED TO RESIGN UNLESS HE WAS GRANTED ADDITIONAL POWERS TO DEAL WITH THE SITUATION. HE FELT THAT THE APPARENT LACK OF COORDINATION AND THE ABSENCE OF A UNIFYING ECONOMIC POLICY ORGAN WITHIN THE GOVERNMENT WEAKENED CREDIBILITY, THUS MAKING MORE ONEROUS THE ALREADY DIFFICULT TASK OF FIGHTING INFLATION. THE DECREE ISSUED BY THE PRESIDENT WAS ESSENTIALLY OF AN ADMINISTRATIVE NATURE. SIMONSEN HAS PROMISED A LIST OF 10 TO 15 "CRITICAL" ITEMS WITHIN THE NEXT WEEK TO TEN DAYS WHOSE PRICES WILL BE "STABILIZED". IT IS GENERALLY BELIEVED THAT IT WILL INCLUDE GASOLINE PRICES, ELECTRICITY RATES,

AND A NUMBER OF AGRICULTURAL PRODUCTS (INCLUDING COFFEE). THE MINISTER WILL HAVE TO EXERCISE GREAT CARE IN SETTING THE PRICE OF THESE "CRITICAL" ITEMS IF HE IS TO AVOID EXACERBATING THE LONG-TERM INFLATIONARY SITUATION. THERE IS ALREADY CONCERN THAT IF PUBLIC UTILITY RATES ARE FOZEN IT COULD SPELL FINANCIAL DIFFICULTIES FOR THE COMPANIES. ALSO, IT WILL BE INTERESTING TO SEE HOW HE HANDLES THE PRICE OF GASOLINE SINCE THE GOVERNMENT HAS MDE THE FUNDAMENTAL CHOICE OF RELYING MAINLY ON THE PRICE MECHANISM TO REDUCE CONSUMPTION.

5. GENERAL REACTION TO THE MOVE HAS BEEN POSITIVE. MOST BUSINESS EXECUTIVES BELIEVE THAT SOMETHING HAD TO BE DONE TO CURB INFLATION AND THAT A UNIFIED APPROACH WILL HAVE ITS ADVANTAGES. ON THE OTHER HAND, THEY FEEL THAT LIMITED OFFICIAL USE

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PRICE CONTROLS ARE NOT GOING TO SLOVE THE LONG-TERM INFLATION PROBLEM. THEY HAVE CONFIDENCE IN SIMONSEN BUT ARE UNSURE THAT HE HAS THE FULL POWERS TO CARRY OUT WHAT IS NECESSARY. MANY SEE GEISEL CONTINUE CALLING THE SHOTS. CRIMMINS

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